Small Islands Big Issues

Issues in Brief

Small Islands and Trade: Economic Choices, Environmental Impacts

In the global trade game, small islands find it difficult to get ahead. Most are heavily dependent on imports, but have limited resources to offer distant world markets — a trade equation that can add up to major development problems. The limited economic options open to small island countries can affect their environment and reduce their possibilities for long-term sustainable development.

For most small island countries, heavy dependence on imports is a fact of life. Small domestic markets make local production of most goods unprofitable, and demand for consumer goods is on the rise as standards of living improve. The ratio of imports to gross domestic product (GDP) is around 20 per cent for developing countries as a whole, but for most small islands that ratio is well above 50 per cent — and over 90 per cent for seven islands, according to 1991 United Nations data.

As exporters, small islands are constrained by several handicaps. Because of their limited resources, they are unable to produce many goods of value on the international market. Many islands, especially in the Pacific, are far from international shipping routes, which makes the cost of transporting goods prohibitive. Moreover, the terms of international trade have turned dramatically against commodity-producing countries over the past decades, as prices for their exports have been outpaced by prices for the finished goods they need to import. Because many small islands rely on one or two export commodities — such as coconuts, sugar, spices or bananas — they are at the mercy of shifts in prices determined by market forces far beyond their control.

Poor Terms of Trade

Given the lack of diversification of small island economies, price disruptions can have an immediate impact: the decline of coconut prices has had devastating effects on countries such as Western Samoa, which relies on coconut-related products for two thirds of its total export income. In Sao Tome and Principe, a steep fall in the international price of cocoa — the commodity which accounts for 90 per cent of exports — has had a severe impact on the national economy; the country now has one of the highest debt-service ratios in the world. While export income has fallen, import costs have risen, locking small island countries into a vicious circle of low-priced exports and high-priced imports from which it is difficult to escape.

International Agreements

Many islands, especially in the Caribbean, have benefited over the years from preferential trade

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agreements with Northern countries, through either the Generalized System of Preferences — negotiated under the General Agreement on Tariffs and Trade (GATT) — or special regional agreements, usually based on former colonial ties. The Lomé Convention, a trade and aid accord between the European Union and 70 African, Caribbean and Pacific (ACP) countries — including 25 small islands — has been seen as a model of North-South cooperation. Under Lomé, European countries have imported Caribbean-grown sugar at prices much higher than the world market price. While this has boosted Caribbean economies, there is concern that such agreements have discouraged island countries from diversifying their economies.

New trade accords are also cause for concern among some small islands: some Caribbean countries see disadvantages in the North American Free Trade Agreement (NAFTA), which offers to Mexico, on an exclusive basis, United States trade benefits that were once also offered to their region. Some analysts argue that NAFTA may also encourage potential investors from North America to set up businesses in Mexico rather than the Caribbean.

Environmental Impact

International trade arrangements can have a direct effect on the environment of small island countries by encouraging them to tailor their agricultural production to the export market, with insufficient regard for the impact on their ecosystems. In Saint Lucia and Dominica, for example, the prices of the bananas they sell to European countries have been kept artificially high under the Lomé Convention. To take advantage of these preferential prices and concessionary access to European markets, local farmers have greatly increased banana production. Donor countries have offered assistance in setting up new plantations, providing fertilizers, pesticides and other inputs, and building the needed infrastructure, such as feeder roads.

Heavy use of agrochemicals, however, has begun to take its toll on fragile island ecologies. Expansion of plantations into marginal lands, especially hillsides, has led to pesticide run-off, which has contaminated freshwater supplies, polluted coastal waters and damaged coral reefs. In Fiji, expansion of sugar production has created comparable environmental problems.

Some small island countries have begun to re-examine their agricultural policies and to seek ways to diversify their exports, in ways which both improve environmental sustainability and provide economic stability. In the Caribbean, this is of particular importance, considering that the preferential access to the European market for bananas is being challenged by other countries, especially Latin American banana producers, in light of the new rules governing agricultural trade resulting from the recently concluded Uruguay Round of GATT.

Green Barriers and Markets

As the international community becomes more environment-conscious, many developing countries — including small island States — are concerned that new environmental regulations can create trade barriers that deny their products access to foreign markets. In an attempt to make their own trade more environmentally sound, some industrialized countries have begun to require "eco-labelling" on imports, which specifies the source or ecological impact of the product. However, most developing countries lack the expertise and marketing resources to adhere to these standards. This is an area in which training and assistance in marketing strategies from donor countries and international experts could make a difference.

But environment-driven trends in demand for international goods and services also present opportunities for developing countries, with the growth in demand for environmentally friendly products in wealthier countries. Dominica, for example, has begun to export natural cosmetic products made from coconuts to "green markets" in the North.

Many island States are seeking new avenues for "niche" marketing that could give their exports a comparative advantage. In one approach, developing countries — including small

islands — are attempting to obtain royalties from the exploitation of their biological resources. Varieties of plant and animal life unique to these habitats are now utilized by Northern transnationals — which sell refined seeds, medicines and agrochemicals back to the countries of origin at high prices. Under the Convention on Biological Diversity and in other fora, developing countries are seeking compensation for their contribution to this lucrative international trade, which would provide economic incentives for them to preserve their natural resources.

For Pacific islands, niche marketing has generally meant small-scale production of such items as exotic spirits and handicrafts that they can offer exclusively on the world market.

Search for Sustainability

Development of new products reflects the search by island countries for a role in the world trading system which will enable them to achieve sustainable development. Some islands have found such opportunities through export-processing zones — offering low-wage havens for foreign transnationals or services for the North. Jamaica has become a key service centre for data processing, and St. Lucia has begun promoting itself as a transshipment centre for trade between Latin America and North America. Mauritius, once heavily reliant on sugar exports, successfully diversified its economy through an export-processing zone based on textiles, and is now developing an offshore banking operation. Bahrain has already metsuccess specializing as a centre for such services. Many international experts think that such services, rather than product exports, hold the key to sustainable development for small island countries. But there is also concern that, without proper planning and regulation, export-processing zones can lead to substandard working conditions and environmental damage.

In preparatory negotiations for the Global Conference on the Sustainable Development of Small Island Developing States, island countries have sought assistance from the North in obtaining the environmentally sound technologies that would enable them to manufacture finished goods from their own raw materials, without undermining their natural resource base. They have also stressed the importance of improving international market access for their exports.

Major decisions on international trade are determined under agreements such as GATT, NAFTA or the Lomé Convention. However, the Global Conference on the Sustainable Development of Small Island Developing States represents a drive to build a political consensus on these issues. It will place firmly on the international agenda the concerns and priorities of small island countries with regard to trade, economic choices and environmental impacts.

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